1976 Annual Report to Investors

IU International

IU
International

IU International serves six major markets: ocean shipping, land transportation, distribution services, utility services, industrial products and services, and agribusiness products and services.

The company has approximately 35,000 employees and 42,000 shareholders around the world.

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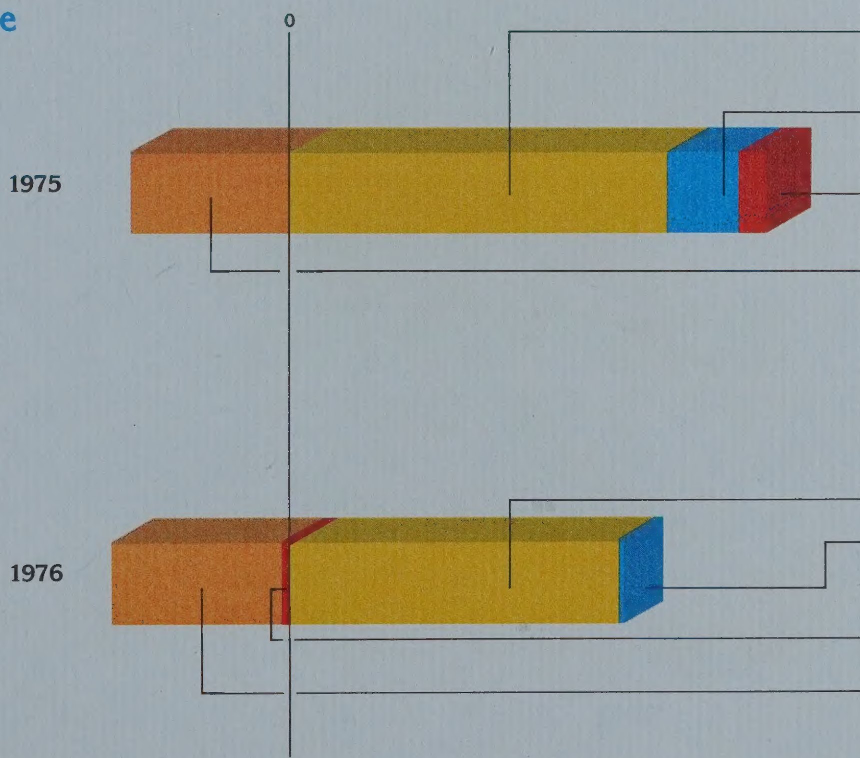
Financial Highlights

In thousands, except per share data

	1976	1975	1974
Revenues	$1,957,648	$1,823,355	$1,981,703
Net Earnings	$42,445	$82,181	$87,640
Earnings Per Share	$1.25	$2.50	$2.68
Dividends Per Common Share	$.875	$.85	$.80
Shareholders' Equity Per Share	$18.13	$17.81	$16.31
Total Assets	$2,396,518	$2,109,337	$1,984,654

Sources of IU's Earnings per Share



1975

Major markets	$2.98
Other[1]	.56
Foreign currency translation adjustments	.19
Income taxes, corporate expenses including interest, and preferred dividends	(1.23)
	$2.50

1976

Major markets	$2.59
Other[1]	.02
Foreign currency translation adjustments	(.03)
Income taxes, corporate expenses including interest, and preferred dividends	(1.33)
	$1.25

[1] Includes development businesses, non-major market operations, and businesses divested

To Our Shareholders:

The year 1976 was the poorest IU has had in a long time. Although the company is still facing some difficult market conditions, the general outlook is more favorable and we expect earnings to improve in 1977.

IU's net earnings in 1976 were $42.4 million, or $1.25 per share, compared with $82.2 million, or $2.50 per share, in 1975. Revenues were $1.96 billion, up from $1.82 billion in the previous year.

The sharp decline in earnings in 1976 was caused by three factors:

- poor results in ocean shipping, distribution services, and agribusiness;
- the large gains from divestments or sale of properties which increased 1975 results; and
- the change from a substantial gain in 1975 to a small loss in 1976 on foreign currency translation.

The poor results of three major market groups in 1976 were partially offset by good performance in the other three major groups: land transportation, utility services, and industrial products and services. Although earnings per share in 1976 were only half those of 1975, a glance at the Sources of Revenues and Earnings statement on pages 24-25 will show that the earnings contribution from the six major market groups held up reasonably well, being $85.0 million in 1976, down $11.5 million or 12 per cent from $96.5 million in 1975.

Year-to-year comparisons were affected to a greater extent by non-operational factors. The "Other" or non-major market category had an earnings contribution, principally from divestments of non-essential businesses and properties, of $18.1 million in 1975, compared with a contribution of only $750,000 in 1976. The 1975 earnings also included a $6.0 million positive result from foreign exchange translation. In 1976, there was a negative impact of $822,000, for a total negative swing of $6.8 million.

Foreign Currency Translation

Almost all of the revenues of IU and its subsidiaries are received in either United States or Canadian dollars. Subsidiaries do on occasion borrow in other currencies, primarily Japanese yen, German marks, and Norwegian kroner. Before 1975, IU recorded the results of currency fluctuations in its statements only if they were expected to result in actual gains or losses.

As explained in previous reports to shareholders, IU is now required by Financial Accounting Standard No. 8 (FAS 8) to include in its statements foreign currency translation adjustments. These adjustments result primarily from the assumed "translation" into United States dollars of the long-term debt of our subsidiaries, principally Canadian Utilities Limited, even though IU has no direct obligation to pay, and the debt is based on Canadian assets and entirely serviced in Canadian currency.

Such translation adjustments have no cash effect. Over time, these items have tended to even out; but in the interim they do badly distort our earnings and confuse investors. Many other companies have similar problems, but to date the Financial Accounting Standards Board has been unwilling to reconsider this controversial requirement.

The quarterly result of foreign currency adjustments for the past two years is shown in this table:

Foreign Currency Translation Adjustments Effect per Share

1975			1976	
Quarter	Cumulative		Quarter	Cumulative
$ .10	$.10	First	$(.19)	$(.19)
.21	.31	Second	(.11)	(.30)
(.09)	.22	Third	(.04)	(.34)
(.03)	.19	Fourth	.31	(.03)

Dividends Increased for 32nd Consecutive Year

Last July, IU's Board of Directors increased the dividend payout from an annual rate of 85 cents per common share to 90 cents, marking the thirty-second consecutive year of continuous growth in per share payout to our shareholders. The higher rate applied to the last two quarterly payments of 1976. Total dividends of 87.5 cents per common share were paid in 1976.

Prior to the 1976 earnings decline, IU's earnings per share had been growing at an annual rate of 23 per cent for five years and 14 per cent for 10 years, while dividends during this ten-year period increased at an annual rate of seven per cent. Consequently, although the dividend rate was rising steadily, the proportion of earnings paid out was dropping. This was in recognition of the fact that the primary source of earnings was no longer utilities. The newer sources of earnings, such as shipping, were less consistent and did not justify such a high payout proportion.

Since we did not increase the dividend proportionately when we were benefiting from strong increases in earnings during recent years, the IU directors felt it was not appropriate to lower the dividend during 1976 when we were having temporary decreases in earnings, especially since utility earnings continued to rise. Because of their confidence in IU's overall financial strength and its continuing earning power, the directors maintained the pattern of steady dividend growth by declaring a further increase in 1976. While it is difficult to anticipate future circumstances, the directors are obviously sensitive to the shareholders' interest in IU's long-standing dividend record.

Capital Spending

IU's investment in future earnings capability is represented by capital expenditures totaling $370 million in 1976. We plan outlays of about $450 million in 1977, with most of these funds being invested in previously ordered liquefied natural gas (LNG) carriers and in our facilities for the rapidly growing utility and trucking operations.

In contrast to many diversified companies, IU does most of its financing at the operating subsidiary level, where the debt can be serviced directly by the earnings of the individual operating units. More detailed information about capital expenditures and financings for the operating groups is included in the Financial Review of this report.

The following summary of IU's six principal operating groups is supplemented by a pictorial review of the major markets beginning on page 11.

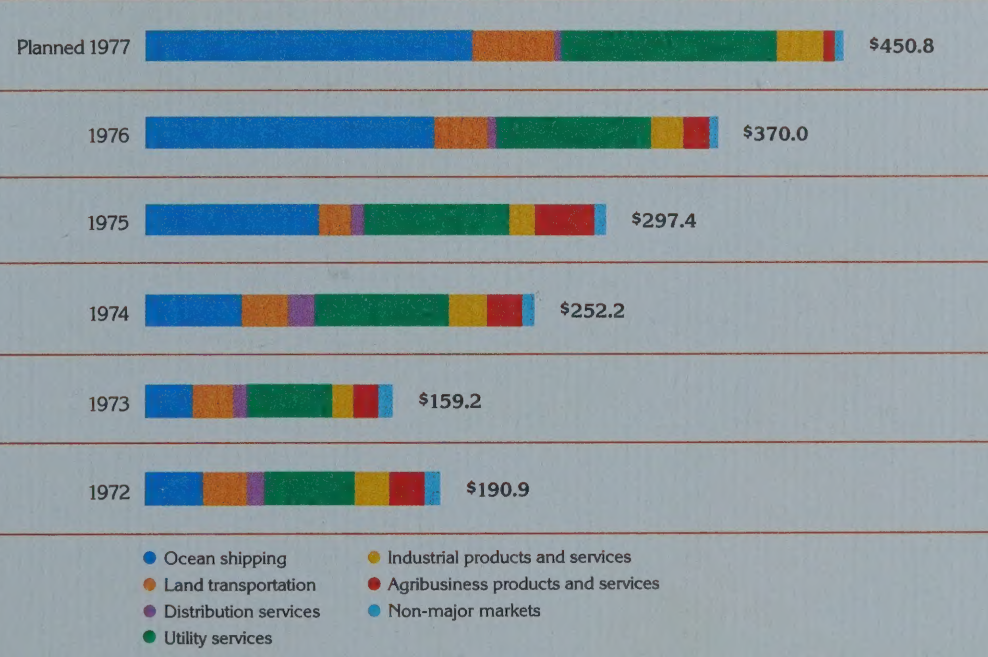
Land Transportation

Land transportation produced the largest year-to-year gain of IU's operating groups, with the earnings contribution nearly doubling to $27.3 million from $14.0 million in 1975. Revenues showed strong growth, increasing to $484.6 million from $383.8 million in 1975.

The performance of Ryder Truck Lines and Pacific Intermountain Express (P-I-E) is evidence of the continuing benefits from a management and capital investment program directed at improved customer service, as well as rate increases. These higher revenues and earnings also reflect the strength of the United States motor freight industry, which was aided by a generally improving national economy throughout most of the year 1976.

Ryder's total revenues increased 36 per cent in 1976, reflecting market share growth and the benefits of recent small acquisitions and new

Capital Expenditures
In millions



terminals. Ryder's earnings contribution rose 52 per cent. The cost efficiency of a motor carrier is reflected in the operating ratio (operating expenses as a per cent of the operating revenues), and Ryder's 92.2 per cent operating ratio in 1976 continued to be one of the best in the industry.

Although not yet up to Ryder's standards of performance, P-I-E's earnings contribution more than doubled during 1976. Revenues increased by 16 per cent, and the operating ratio improved to 94.0 per cent. Results in 1976 were highly encouraging, as P-I-E continued to demonstrate how improved customer service and effective cost control can stimulate a motor carrier's performance. A system for computerized control of shipments has been successful, and a program of strategic terminal placement has helped to improve market share.

IU's trucking management closely monitors new technology and equipment design. In the last two years, Ryder and P-I-E have improved fuel economy more than 15 per cent with the use of air shields, new axles, radial tires, fan clutches, reduced engine speeds and continued driver education.

P-I-E opened 15 terminals in 1976, and 32 terminals are scheduled to be opened in 1977. During 1976, Ryder opened 39 terminals, and new market development is anticipated through the opening of 40 terminals in 1977.

Through P-I-E Forwarding, IU's land transportation services include an international freight business serving most European countries and the Middle East. A new over-the-road intercontinental service is operating from Europe to the Middle East, serving Iran, Iraq, Kuwait, Saudi Arabia, Syria and Turkey.

Further earnings increases are expected in 1977 for land transportation services. Ryder and P-I-E should maintain their momentum, although regulatory recognition of cost increases and the state of the United States economy will be important factors affecting results.

Ocean Shipping

In 1976, the earnings contribution of Gotaas-Larsen Shipping Corporation decreased to $4.0 million from $12.3 million in 1975. Revenues in 1976 were $145.1 million, down from $150.8 million in 1975.

Our ocean shipping business continues to be depressed by a world surplus of crude oil tankers and offshore drilling rigs, and by the slower than expected development of the liquefied natural gas trade. The market for product/chemical carriers and for bulk cargo carriers has also been very weak.

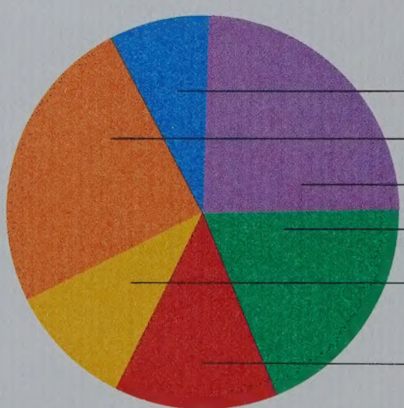
Passenger cruise operations had a substantial profit in 1976. Gotaas-Larsen has interests in five cruise ships, most of which serve Caribbean ports. Strong bookings have continued into 1977.

Gains of $7.4 million from the sale of six vessels (three tankers, two refrigerated ships and one dry bulk carrier) during 1976 were partially offset by a charge against earnings of $3.7 million resulting from the cancellation of an inward-charter on a 40 per cent-owned tanker in December. The tanker was in layup

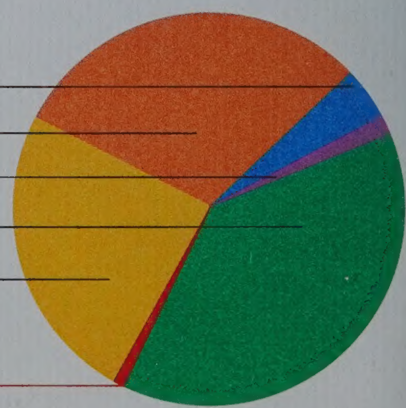
Revenues and Earnings Contributions from Major Markets—1976

In millions

Revenues



Earnings Contributions



Revenues		Earnings Contributions
$ 145.1	Ocean Shipping	$ 4.0
484.6	Land Transportation	27.3
470.0	Distribution Services	1.3
355.1	Utility Services	35.4
183.1	Industrial Products and Services	21.8
254.6	Agribusiness Products and Services	(4.8)
$1,892.5		$85.0

during 1976. Since charter prospects for this vessel were remote, management decided to negotiate the cancellation of the charter, which would have expired at the end of 1977.

An important milestone in IU's ocean shipping business will be the first delivery of liquefied natural gas (LNG) to Japan by Gotaas-Larsen's 125,000-cubic-meter LNG carrier, "Hilli," in 1977. The "Hilli" and her two Norwegian-built sister ships will carry gas from Abu Dhabi to Tokyo Bay under 20-year charters to an international producer-consumer consortium.

The "Gimi," the second LNG carrier dedicated to the Abu Dhabi-to-Japan trade, joined the fleet in December 1976. This vessel is scheduled to begin transporting gas later this year. The earnings from this project will accelerate in the third quarter of 1977, when the third of the Norwegian-built ships (as yet unnamed) is placed in service. These three ships will produce revenues of about $1 billion over the 20-year charters.

A fourth LNG carrier, the "Golar Freeze," built in West Germany, was delivered in February of this year and has been chartered to transport gas from Indonesia to Japan for a six-month to two-year term commencing later this year. In addition, Gotaas-Larsen has granted to Pertamina, the Indonesian national oil company, an option to charter this vessel for a 20-year period. A fifth LNG carrier, as yet unchartered, will be built in Japan.

When the LNG fleet was ordered, Gotaas-Larsen was in the midst of several years of excellent earnings from its crude oil carriers, and the resultant strong cash flow was dedicated to financing the new ships. With the oil embargo and the quadrupling of oil prices, the volume of seaborne oil traffic turned down sharply after years of steady increases and the expected earnings and cash flows did not materialize. The financing of the LNG fleet then became more difficult.

I am happy to report that during the past year we completed arrangements for financing all of the 1976-1977 new ship deliveries, including the LNG fleet. Since the beginning of 1976, financings exceeding $400 million have been completed or confirmed in connection with the delivery of four LNG carriers, an ultra large crude carrier, a liquefied petroleum gas carrier, two product/chemical carriers and two semi-submersible drilling rigs.

At the beginning of 1976, five oil tankers were in layup. Two of these vessels were sold during the year and one has been placed on charter. Two tankers totaling 430,000 deadweight tons (dwt) remain in layup, and expenses related to these layups are expected to continue through 1977 unless more favorable market conditions develop. Although all four of the Gotaas-Larsen offshore drilling rigs were in layup at year-end, short-term charters for three of the four rigs are currently being negotiated. Because of depressed charter rates, the fixed charges and layup expenses will absorb most of the income of the fleet.

A 417,000-dwt ultra large crude carrier, which had been ordered prior to the tanker market slump, was delivered and chartered in the third quarter of 1976. However, this vessel's employment after the first quarter of 1977 is uncertain. The company has no other crude oil carriers on order.

During 1977, chartering conditions for oil tankers are not expected to improve. The income from LNG operations will not yet be large enough to offset the fixed charges on Gotaas-Larsen's new vessels, so no improvement in profitability is expected this year.

Utility Services

IU's utility services group—which includes 66 per cent-owned Canadian Utilities Limited (CU) and wholly-owned General Waterworks Corporation—had an earnings contribution of $35.4 million in 1976 compared with $33.3 million a year earlier. Revenues rose to $355.1 million from $247.1 million in 1975.

Increased demand for electric and natural gas service resulted in slightly higher earnings for CU, as a major part of the revenue gain in CU's natural gas operations was offset by higher fuel costs. Natural gas sales for the year rose four per cent to 259 billion cubic feet. Electric energy sales for 1976 rose eight per cent to 2.2 billion kilowatt hours. CU provides natural gas service to 257 communities and electric power to 368 communities.

Regulatory officials in Alberta have recognized that growing utilities must have reasonable rates of return in order to attract new capital and meet expanding service requirements. Late in 1975, CU obtained approval for rate increases which contributed to a strong performance in the first half of 1976. Inflationary cost pressures, including rising energy costs, reduced earnings in the second half of the year. The timing of applications for utility rate relief and the actual receipt of increased revenues tends to mismatch quarterly reporting of costs and revenues during periods of above-normal inflation and rising energy costs.

Above-average growth of the Alberta economy is expected to continue over the next several years. CU's capital expenditures will provide additional gas and electrical production capacity, along with expanded transmission and distribution systems.

In October, a $24.5 million public offering of CU common shares was made to Canadian investors only. IU did not participate in this offering, which made a larger number of common shares available for trading

in Canada and thus broadened the market for CU securities. As a result, IU's ownership of CU was reduced from 74 per cent to 66 per cent.

General Waterworks increased both its earnings contribution and revenues in 1976. This company has placed a high priority on obtaining rate increases to meet the increased costs associated with providing quality service to customers.

Several small water service operations were sold in 1976. GWC will continue to divest moderate-sized utilities in locations where demand is too low for efficient operation or where the cost of obtaining rate adjustments is out of proportion to the increases granted. Proceeds from divestments will be used primarily to upgrade remaining properties so they will yield higher returns.

Further earnings increases are expected in 1977 from the utility services group.

Distribution Services

Earnings contributions from IU's distribution services companies were $1.3 million in 1976, down from $11.7 million in 1975. Revenues were $470.0 million, compared with $445.6 million in 1975.

For most of IU's distribution units, 1976 was a poor year. Profit margins were under severe pressure throughout the year, with companies serving industrial and dental distribution markets reporting especially poor year-to-year earnings comparisons.

Unijax, a leading paper distributor in the Southeast and Midwest, was the largest contributor of revenues and earnings in the group during 1976. Biggers Brothers, which provides institutional food services in the Southeast, showed improved results late in the year.

Capital expenditures in the industrial sector have lagged behind the gradual upturn in the economy, and this has affected the performance of IU's industrial supply companies in Pennsylvania, Michigan, and Illinois. In addition, subsidiaries serving contractor-oriented markets in Florida and other Southeastern states suffered because of the slow recovery of the multi-unit home construction industry.

Some segments of the distribution group have not performed as well as management had anticipated. Certain problems in this group were obscured earlier because of profits produced in a shortage economy. Remedial actions have been painful, and no sudden return to previously reported high levels of profitability is expected.

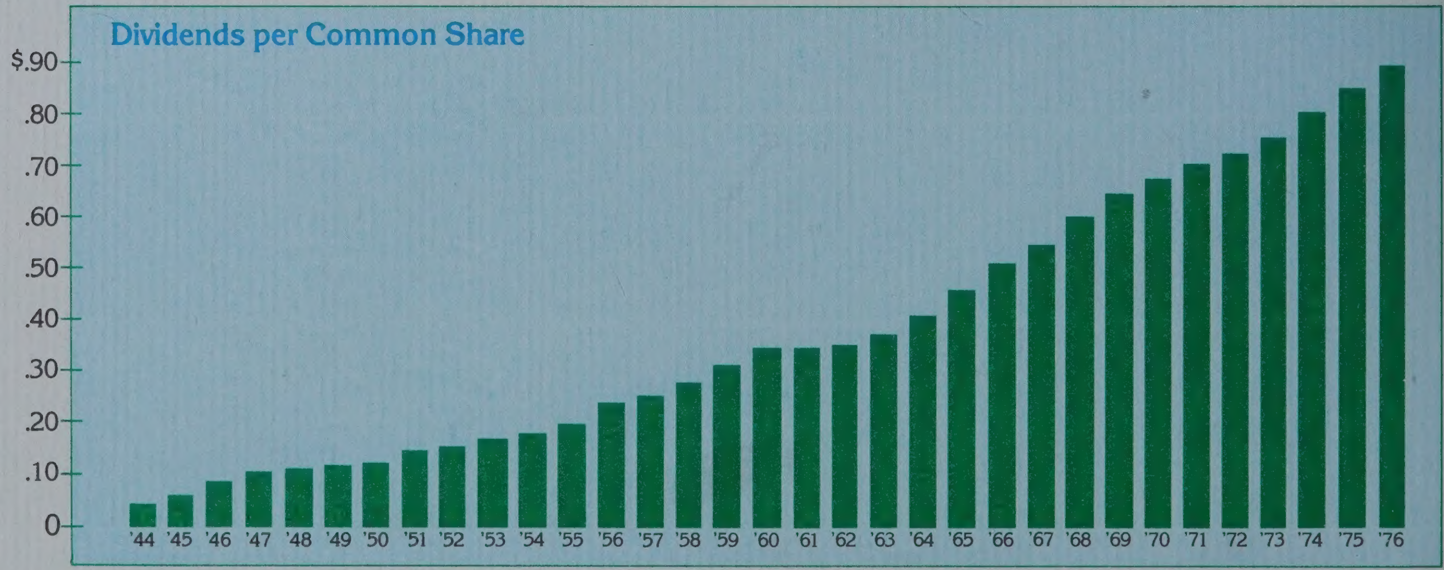
Overall, the distribution services group is expected to report earnings improvement in 1977.

Industrial Products and Services

IU's industrial group provides waste management services and manufactures energy-related products. The earnings contribution of these subsidiaries totaled $21.8 million in 1976, slightly better than $21.5 million reported a year earlier. Revenues increased to $183.1 million from $162.5 million in 1975.

Southwest Fabricating & Welding Company, a major producer of piping and pressure vessels, increased its earnings contribution in 1976. Hills-McCanna, a manufacturer of valves and flow control components, equaled its 1975 earnings performance. Both companies serve electrical power, petroleum, gas processing, petrochemical and nuclear power industries. Backlogs remain at high levels. Both companies should report good earnings in 1977.

Earnings for IU's metal recovery subsidiary, International Mill Service (IMS), were below 1975 results as a result of a slump in steel production during the second half of the year.



Using specialized equipment, IMS collects, transports and processes steel mill slag, and recovers metal which is recycled to the mill. The company's performance reflects the level of steel mill output in the 15 countries which it serves in North and South America and Europe. Earnings in 1977 will again depend on steel production levels.

IU Conversion Systems has received contracts from utilities in Ohio, Pennsylvania and Indiana for its patented Poz-O-Tec® system, which removes the pollution by-products of stack gas scrubbers at coal-burning power plants. The first full-scale Poz-O-Tec system is now operational in Ohio. This facility will convert more than 600,000 tons annually of stack gas scrubber sludge and fly ash into structurally stable landfill material. The development funds that have been invested in this promising new business are expected to produce profits in 1977 and thereafter.

Agribusiness Products and Services

C. Brewer and Company, Limited, a 53 per cent-owned Hawaii-based company, reported to IU an after-tax loss of $4.8 million in 1976, compared with an after-tax earnings contribution of $3.7 million in 1975. Revenues decreased to $254.6 million from $296.2 million in 1975.

A world surplus of sugar has driven raw sugar prices below the costs of production for United States cane and beet sugar growers. Losses in sugar operations were the primary cause for the sharp decline in C. Brewer's earnings in 1976.

C. Brewer's lower earnings in 1976 also reflected a loss from discontinued shipbuilding and construction operations, as well as lower contributions from potato growing, molasses distribution, fertilizer operations, and international agribusiness management services. Land development and leisure time operations were again in a loss position in 1976.

Macadamia nuts are a developing product line which showed improved earnings contributions. The orchards are to be expanded by 50 per cent over the next five years.

Revenues and earnings from Guatemala spice operations improved in 1976. C. Brewer plans a 30 per cent expansion of cardamom spice production in Guatemala over the next several years.

Sugar prices have been highly volatile since mid-1974, when the United States Congress failed to renew the Sugar Act. The near-term outlook for all United States producers is for sub-par performance.

The Outlook

Three of our major groups—land transportation, utility services and industrial products and services—gave us solid performances in 1976 and have good prospects for 1977. We are optimistic that the marginally profitable distribution group will show improvement this year.

While IU has good medium- to long-term growth possibilities in its agribusiness and ocean shipping units, the near-term outlook for both is poor. This outlook will change when favorable market conditions produce higher prices for sugar and higher charter rates for tankers. We feel certain our investment in the LNG business will pay off handsomely in the years ahead.

In summary, we expect that 1977 earnings will show modest improvement over 1976.

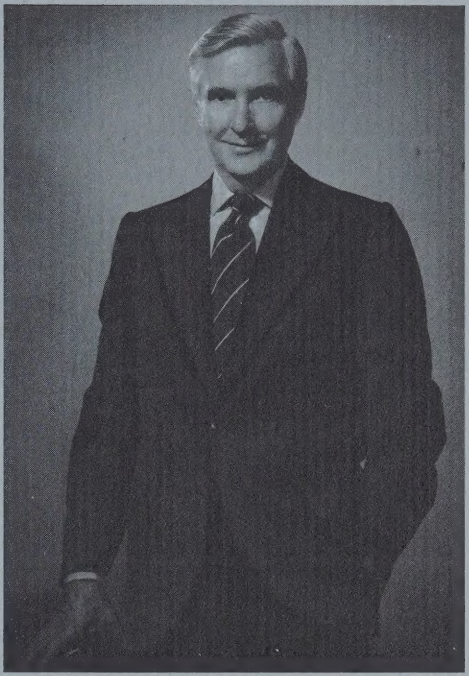
We are encouraged by the support of our 35,000 employees and our 42,000 shareholders.

Sincerely,

John M Seabrook

John M. Seabrook
Chairman and President

March 4, 1977



John M. Seabrook

IU Organization

IU INTERNATIONAL CORPORATION SHAREHOLDERS

BOARD OF DIRECTORS

SENIOR OFFICERS

John M. Seabrook, *Chairman and President*
John T. Jackson, *Chairman of the Executive Committee*
James J. Burke, *Executive Vice President and Chief Financial Officer*
Robert F. Calman, *Executive Vice President*
John G. Christy, *Executive Vice President*

CORPORATE STAFF

GROUP EXECUTIVES

OCEAN SHIPPING

Revenues: *$145.1 million*
Earnings: *$ 4.0 million*

Gotaas-Larsen Shipping Corp.:

Liquefied natural gas carriers
Crude oil carriers
Bulk carriers
Product carriers
Refrigerated ships
Oil and gas drilling rigs
Cruise ships
Management services for other owners

LAND TRANSPORTATION

Revenues: *$484.6 million*
Earnings: *$ 27.3 million*

Ryder Truck Lines and Pacific Intermountain Express:

Motor freight carriers providing general, bulk, and special-commodity freight services throughout the United States

P-I-E Forwarding:

International motor freight and forwarding services

DISTRIBUTION SERVICES

Revenues: *$470.0 million*
Earnings: *$ 1.3 million*

Biggers Bros.:

Institutional food products

Codesco:

Dental supplies, equipment and laboratory services

IU Distribution Services, Inc.:

Industrial supplies
Plumbing, heating, and electrical supplies

Unijax:

Paper and related supplies

CANADIAN UTILITIES LIMITED SHAREHOLDERS

Canadian Utilities Limited is a publicly owned company. IU owns the equivalent of 66% of the company's outstanding shares.

C. BREWER AND COMPANY, LIMITED SHAREHOLDERS

C. Brewer and Company, Limited is a publicly owned company. IU owns approximately 53% of the capital shares outstanding.

CANADIAN UTILITIES LIMITED BOARD OF DIRECTORS

C. BREWER AND COMPANY, LIMITED BOARD OF DIRECTORS

INDUSTRIAL PRODUCTS AND SERVICES

Revenues: *$183.1 million*
Earnings: *$ 21.8 million*

Hills-McCanna:
Valves and flow control components

Southwest Fabricating & Welding:
Piping and pressure vessels

G. and W. H. Corson:
Lime and limestone products

International Mill Service:
Metals recovery, materials handling

IU Conversion Systems:
Sludge disposal, pollution control

TAS Communications:
Telephone answering services

UTILITY SERVICES

Revenues: *$355.1 million*
Earnings: *$ 35.4 million*

Canadian Utilities:

Electrical power generation and transmission in Canada
Natural gas distribution in Canada
Utility design, engineering, project management, and related consulting services

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General Waterworks:

Water purification and distribution in the United States

AGRIBUSINESS PRODUCTS AND SERVICES

Revenues: *$254.6 million*
Earnings: *$ (4.8 million)*

C. Brewer:

Agricultural production (sugar, molasses, potatoes, spice, rice)
Agricultural marketing (molasses products, macadamia nuts, chemicals, fertilizers)
International agribusiness consulting services
Land development/leisure time services

Directors

John T. Jackson,* *Haverford, Pennsylvania*
Chairman of the Executive Committee of IU
E. B. Leisenring, Jr., *Berwyn, Pennsylvania*
President of Westmoreland Coal Company (Coal producing company)
Peter L. P. Macdonnell, *Edmonton, Alberta*
Senior Partner of Milner & Steer (Barristers and solicitors)
Willis S. McLeese,*† *Toronto, Ontario*
President of Trans Canada Freezers, Limited (Cold storage plant operators)
John M. Seabrook,* *Salem, New Jersey*
Chairman and President of IU
Lewis H. Van Dusen, Jr.,† *Bala Cynwyd, Pennsylvania*
Senior Partner of Drinker, Biddle and Reath (Attorneys at law)
William M. Weaver, Jr., *Smith, Nevada*
Partner of Alex. Brown & Sons (Investment bankers)
Ira T. Wender,*† *New York, New York*
Senior Partner of Wender, Murase & White (Attorneys at law)
The Earl of Westmorland, K.C.V.O., *London, England*
Deputy Chairman of Sotheby & Company (Fine art auctioneers)

Honorary Directors

Robert C. Heim, *New York, New York*
F. Clarence Manning, *Calgary, Alberta*
Dennis K. Yorath, *Edmonton, Alberta*

**Member of the Executive Committee of the Board of Directors*
†Member of the Audit Committee of the Board of Directors

Senior Officers

John M. Seabrook, *Chairman and President*
John T. Jackson, *Chairman of the Executive Committee*
James J. Burke, *Executive Vice President*
Robert F. Calman, *Executive Vice President*
John G. Christy, *Executive Vice President*

Operating and Staff Executives

Alexis Balmy, *Vice President, Management Resources*
Daniel J. Brennan, *Vice President, Taxes and Insurance*
Norman Gross, *Vice President, Planning*
Peter Keber, *Vice President, Secretary and Senior Counsel*
Victor J. Lang, Jr., *Vice President, Government Affairs*
Edward J. Larese, *Vice President and Controller*
Thomas O. Maxfield, III, *Group Vice President*
Magnus E. Robinson, *Vice President and Treasurer*
Arlen D. Southern, *Vice President, Corporate Affairs*
Anson W. H. Taylor, Jr., *General Counsel*
John J. Terry, *Group Vice President*
John B. Turbidy, *Senior Vice President*
Harry W. Wilcox, Jr., *Group Vice President*
Robert W. Wolcott, Jr., *Group Vice President*

Members of the board of directors of IU International are, from left foreground (seated): John M. Seabrook; John T. Jackson; Peter L. P. Macdonnell; E. B. Leisenring, Jr.; Willis S. McLeese; William M. Weaver, Jr.; The Earl of Westmorland; (standing) Lewis H. Van Dusen, Jr.; F. Clarence Manning (honorary director); Ira T. Wender; Robert C. Heim (honorary director); and Dennis K. Yorath (honorary director).

Review of IU's Major Markets

IU International is a diversified worldwide company serving six major markets: land transportation, ocean shipping, utility services, industrial products and services, distribution services, and agribusiness products and services.

Land Transportation

Pacific Intermountain Express (P-I-E) and Ryder Truck Lines are each among the largest and most efficient motor carriers in the United States, and together serve nearly every major city.

Both IU trucking companies have worked to improve excellent safety records and to conserve fuel. Lower vehicle speeds, reduced engine power, air shields, radial tires, fan clutches, new

axle ratios, and other changes have reduced fuel consumption more than 15 per cent and reduced vehicle accidents to less than three per million miles. The two truck lines carry approximately seven million shipments weighing more than five million tons annually.

Ryder's 6,900 employees operate 309 terminals and more than 8,100 pieces of equipment over approximately 50,400 route miles. A division of Ryder, Helms Express, serves the highly industrialized North Central states. Ryder was the fastest growing major motor carrier during the past year, with a 36 per cent growth in revenues.

P-I-E's 5,500 people run some 8,000 trucks and trailers across 45,000 route miles serving 178 terminals. P-I-E's emphasis on customer service has been a key factor in its sharply improved earnings performance.

Ocean Shipping

Gotaas-Larsen Shipping Corporation is one of the world's major independent shipping companies, owning or operating more than 50 vessels, including liquefied natural gas (LNG) carriers, oil tankers, bulk carriers, product/chemical carriers and semi-submersible offshore drilling rigs.

Before the end of 1977, Gotaas-Larsen will have three LNG ships serving the Abu Dhabi-to-Japan trade. Revenues will be approximately one billion dollars over the 20-year charters.

"Hilli" *(below)* and her sister ship "Gimi" *(bottom left)* are 961 feet long, the size of the passenger liner "Queen Elizabeth 2". Both are 125,000-cubic-meter vessels carrying LNG at 260 degrees below zero Fahrenheit (−160 degrees Centigrade) at 1/600th its volume as a gas. Regasification releases 2.7 billion cubic feet of gas— enough to generate electricity for a Japanese city of 250,000 for one year.

"Golar Freeze", Gotaas-Larsen's fourth LNG carrier, will also enter service in 1977. She will carry gas from Indonesia to Japan.

Gotaas-Larsen owns or has interests in passenger cruise ships of Royal Caribbean Cruise Line, Eastern Steamship, and Royal Viking Line.

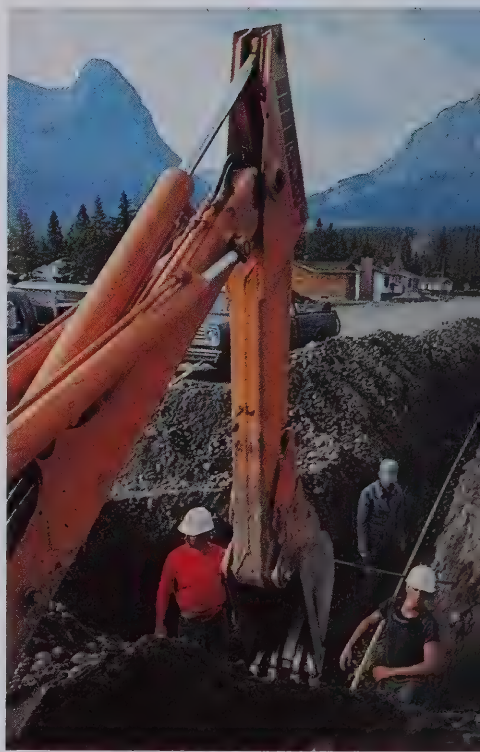
Utility Services

Canadian Utilities Limited, a 66 per cent-owned subsidiary, supplies natural gas to 400,000 customers in 257 communities and electricity to 100,000 consumers in 368 communities in Alberta.

New electric power substations typify the facilities required to help Alberta grow *(below left)*. The company owns generating plants with a total capacity of 686,000 kilowatts.

At the foot of the Canadian Rockies, CU work crews lay gas pipeline *(below right)*. CU's subsidiaries operate more than 13,500 miles of pipeline.

General Waterworks Corporation provides water services to 340,000 customers in 15 states. At Blair Gap near Altoona, Pennsylvania *(bottom right)*, this IU subsidiary's mountain spring sources and reservoirs provide a steady flow of fresh, clear water.

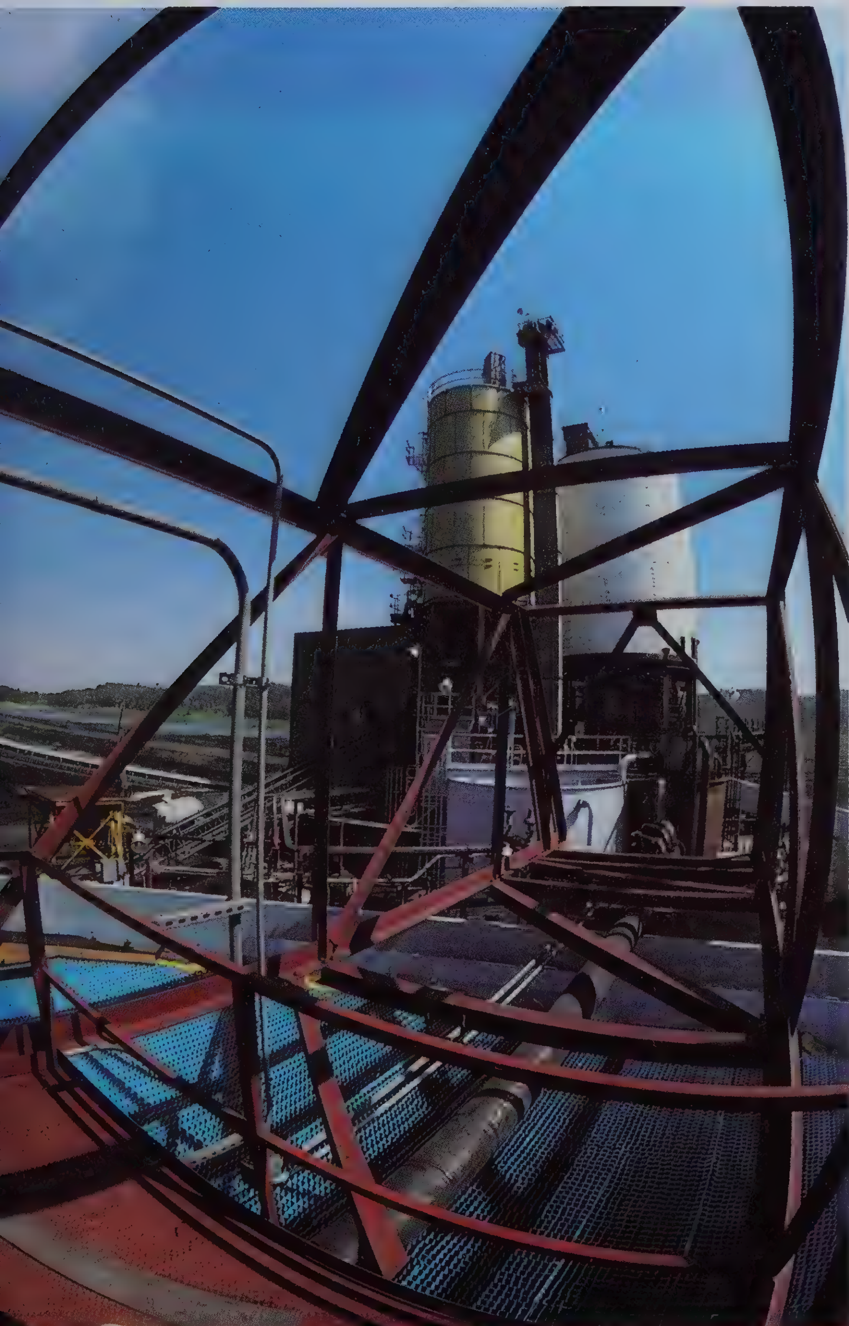


Industrial Products and Services

Companies in this group provide waste management services to the steel and electric utility industries, and manufacture piping and flow control systems for the power, petroleum, and other energy-related industries.

IU Conversion Systems has developed a solution to the pollution problems of stack-gas scrubbers at coal-burning power plants. The patented Poz-O-Tec® system blends scrubber sludge and fly ash with other elements to produce landfill or roadbase material. The first major plant *(below left)* is in operation at Conesville, Ohio.

International Mill Service processes slag and other by-products at steel mills in 15 countries. The mill it serves at Las Truchas, Mexico *(below right)*, still under construction, is expected to be the largest in the Western Hemisphere.



Southwest Fabricating & Welding produces pressure vessels and piping for the power, petroleum, gas and related energy industries. Welders at Southwest's plant in Houston, Texas *(below)* are working on pressure vessels destined for a nuclear power plant. IU's Hills-McCanna subsidiary manufactures and distributes valves and flow control systems for similar energy-related markets.

Distribution Services

IU's distribution services subsidiaries supply paper, janitorial and hospital supplies in 27 states; institutional food products in five Southeastern states; dental supplies, equipment and laboratory services in 26 states; and a variety of mill supplies, piping, and plumbing, heating and electrical supplies to industrial companies and contractors in 15 states in the Southeast and Midwest.

In the Unijax distribution center in Richmond, Virginia *(below left)*, a stock handler uses his forklift truck to position pallets of warehoused paper products. Computerized inventory control systems at this IU subsidiary help to streamline the distribution process. In addition to industrial and printing papers, Unijax distributes chemicals, plastics, packaging, graphic arts supplies, and other non-paper products.

A Biggers Brothers driver makes daily deliveries of assorted food products at a fast-food chain outlet in Charlotte, North Carolina *(below right)*. IU's institutional food distributors provide dry groceries, produce, frozen and canned foods, meat and restaurant supplies to hospitals, schools and other institutions, hotels and motels, national and local restaurants, and franchised fast-food operations.

Agribusiness Products and Services

IU's 53 per cent-owned subsidiary in Hawaii, C. Brewer and Company, Limited, has diversified from its traditional base in sugar growing into molasses, macadamia nuts, cardamom spice, coffee, potatoes, rice, guava and prawns. The company's agribusiness consulting services also help produce food more efficiently in several developing nations.

A Honolulu supermarket *(below left)* prominently displays the new name and packaging of the company's Mauna Loa macadamia nuts.

Special equipment is required *(below right)* to process the nuts for packaging and distribution. Demand for the delicious macadamias continues to outstrip supply. C. Brewer farms 5,800 acres of macadamias *(bottom left)*, and plans to double nut production by 1982.

Financial Review

This financial review incorporates Management's Discussion and Analysis of the Summary of Operations and comments on other financial matters. It should be read in conjunction with the operations summaries on pages 2-7, 11-18 and 23-25 and the Financial Statements and Notes on pages 26-38.

Revenues and Other Income

The company's consolidated revenues and other income increased by seven per cent to $1,957.6 million in 1976, after a decrease of eight per cent to $1,823.4 million in 1975.

Ocean shipping revenues declined by $5.8 million, or four per cent, to $145.1 million in 1976, following a 1975 decrease of $55.9 million, or 27 per cent, to $150.8 million. The principal cause of the decline in both revenues and earnings since mid-1974 of IU's ocean shipping subsidiary, Gotaas-Larsen, has been the severe depression in the world market for oil tankers stemming from substantial increases in the price of crude oil. The continued oversupply of tankers has resulted in many vessels being laid-up or scrapped worldwide because of unprofitable charter rates. Gotaas-Larsen, not immune to the industry's problems, has had as many as six tankers in layup, although currently only two tankers remain laid-up, one of which is 40 per cent-owned.

A downturn in the drilling rig market has been evident since mid-1975. A slowdown in the leasing of new oil and gas exploration blocs is responsible, aggravated by the greater number of oil rigs available. Weak markets for product/chemical carriers and bulk cargo carriers also prevailed during the year 1976.

Gotaas-Larsen's passenger cruise operations posted substantial increases in revenues in 1976, reflecting the strong demand for cruises to Caribbean ports. Net gains from cargo vessel sales also increased in 1976.

Land transportation revenues rose by $100.8 million, or 26 per cent, to $484.6 million in 1976. IU's trucking companies did even better than the generally favorable performance of the motor freight industry, which reflected the strong pace of the United States economy during most of the year. The increase in revenues was attributable partly to the rate increases which followed the signing of new industry-wide labor contracts last year, and partly to the growth in market share by IU's two trucking companies. Both companies have continuing programs directed at improved customer service, including strategic placement of new terminal facilities to offer shippers faster and more convenient service.

Distribution services revenues increased by $24.4 million, or five per cent, to $470.0 million in 1976. The modest increase was principally a result of higher sales volumes and increased selling prices for paper and related products. In the previous year, distribution services revenues increased by $15.3 million, or four per cent, to $445.6 million, following a sizable increase in 1974 ($157.1 million, or more than 57 per cent, to $430.3 million). Approximately $105.0 million of the $157.1 million increase in 1974 revenues was attributable to the acquisition of distribution companies during 1973 and 1974, which did not materially affect net earnings for 1974. The lifting of price controls by the United States government and the increase in inventories by customers in anticipation of a shortage economy also added to 1974 revenues.

Utility services revenues rose by $108.1 million, or 44 per cent, to $355.1 million in 1976. The full impact of rate increases received by IU's electric, gas and water utilities during 1975 was reflected in 1976 results. Although higher than normal temperatures limited natural gas sales volume to 259 billion cubic feet, an increase of four per cent, electric energy sales volume rose by eight per cent to 2.2 billion kilowatt hours. Natural gas and electric operations are carried on in the Province of Alberta, Canada. The results reflect the region's growing economy.

A year earlier, utility services revenues had increased by $61.3 million, or 33 per cent, to $247.1 million. The 1975 increase was attributable principally to interim rate increases granted during the year; additionally to lower temperatures and higher natural gas consumption during the spring of 1975 compared with the prior year; and partly to the continuing population growth and industrial expansion in the Province of Alberta.

Revenues of the industrial products and services group increased by $20.6 million, or 13 per cent, to $183.1 million in 1976. The increase in revenues was primarily a result of continuing strong demand for piping and pressure vessels by energy-related industries. Backlogs remain high for IU's manufacturing subsidiaries serving these markets. Despite lower steel production in the second half of the year, IU's waste management operations produced a modest increase in revenues, partly because of renegotiated contracts in European markets. Rate increases by the Canadian telephone answering services subsidiary in the last half of 1975 also contributed to this group's 1976 revenue increases.

A year earlier, industrial products and services revenues increased by $25.5 million, or 19 per cent, to $162.5 million. Of that 1975 increase, approximately $4.1 million was accounted for by the acquisition of a waste management company whose operations were included for only nine months in 1974. Other factors included greater penetration of the fabricated piping market and increases in both sales volume and price of valves for the energy-related industries served.

Revenues of the agribusiness products and services group fell by $41.5 million, or 14 per cent, to $254.6 million in 1976, even though acquisitions during the year added $14.4 million to the group's revenues. Lower sugar prices, caused by a worldwide surplus of sugar, were primarily responsible for the decline. During 1975, the two-year upward trend of sugar prices reversed itself dramatically, resulting in a 77 per cent plunge from the peak price of sugar in 1974. In the absence of any United States government price support since the expiration of the Sugar Act in mid-1974, the worldwide sugar surplus has depressed the price of sugar below the costs of production for United States growers. In addition, IU's revenues from this subsidiary were $21.0 million lower in 1976 because of discontinued operations at a shipbuilding and construction subsidiary, resulting in loss of $6.7 million stemming principally from a 1972 contract without an inflation-adjustment clause.

The agribusiness group's decline in revenues in 1975, largely the result of lower sugar prices, was partially offset by increased sugar production and by the absence of a sugar workers' strike. Increased revenues from other agribusiness operations in 1975 also helped to moderate the decline in revenues.

Revenues from IU's non-major markets and all other operations decreased by $72.3 million, or 53 per cent, to $65.2 million in 1976, following a decline of $203.5 million, or 60 per cent, to $137.5 million in 1975. The lower revenues were principally a result of the divestment of non-strategic companies during 1975 and 1974, including a gain of $20.2 million from the sale of properties in 1975.

Costs and Expenses

Consolidated cost of sales, other costs, and expenses increased $179.1 million, or 11 per cent, in 1976, compared with a decrease of $113.5 million, or six per cent, during 1975.

For the ocean shipping group, operating costs and expenses increased slightly during 1976. A cancellation charge on an inward-charter of a 40 per cent-owned tanker, along with additional operating costs—principally depreciation associated with new vessels—offset a reduction in expenses resulting from the sale of vessels and the reduced operating expenses associated with laid-up vessels.

This group's operating costs and expenses decreased in 1975 because of the layup of vessels. The decrease was not proportional to revenue decreases that year because fixed costs and certain expenses continued to be incurred on laid-up vessels and because inflationary pressures were reflected in higher operating costs for the active fleet.

The land transportation group's operating costs and expenses rose in 1976 as a result of higher wage contracts and increased volume.

In the distribution services group, inflationary cost increases were proportionately greater than revenue gains in 1976. The result was profit margin decreases for most of the distribution subsidiaries, lowering the group's earnings contribution for the year.

Increased electric, gas and water utility operating costs and expenses were proportional to increases in demand in 1976. Inflationary pressures on energy costs were evident, especially in the latter part of the year. In 1975, electric, gas and water utility operating costs and expenses increased as a result of inflationary pressures. Recognizing these pressures, regulatory agencies granted rate increases which were reflected in results beginning in the latter half of 1975.

In the industrial products and services group, the increased cost of sales and other costs and expenses in 1976 were principally related to the higher volume of piping and pressure vessel sales. The 1975 rise in cost of sales and other costs and expenses was proportional to the rise in revenues.

The agribusiness group's decline in cost of sales and other costs and expenses during 1976 was primarily a result of the divestment of shipbuilding and construction operations. In addition, there were substantial write-offs in the previous year related to land development projects.

For IU's non-major markets, the decline in cost of sales and other costs and expenses in both 1976 and 1975 was directly attributable to the divestment of various non-strategic companies and properties.

Total consolidated foreign currency translation adjustments amounted to a loss of $1.4 million in 1976, while in 1975 and 1974 these adjustments resulted in gains of $7.1 million and $2.0 million, respectively. As previously discussed (see page 2), these adjustments result principally from the translation of the foreign-currency long-term debt of Canadian Utilities Limited at year-end exchange rates, as required by Financial Accounting Standard No. 8. The exchange rate for the Canadian dollar was $.99, $.985 and $1.01 at December 31, 1976, 1975 and 1974, respectively. The long-term debt of Canadian Utilities Limited has remained relatively constant throughout the period.

Interest and Debt Expense

Interest and debt expense rose by $10.4 million, or 19 per cent, to $66.3 million in 1976. The increase was caused primarily by higher borrowing levels, partially offset by lower interest rates. In 1975, the decrease of $8.5 million, or 13 per cent, to $55.9 million was attributable to substantially lower interest rates, partially offset by increased levels of borrowing.

Income Taxes

Income taxes decreased by $8.2 million, or 29 per cent, to $19.8 million in 1976, following a decline of $25.3 million, or 47 per cent, in 1975. The agribusiness subsidiary's operating losses in 1976 and the substantial reduction in its taxable income in 1975 accounted for $13.8 million and $24.0 million of the decreases in 1976 and 1975, respectively. Also in 1975, the company reversed a charge for deferred income taxes in the amount of $8.0 million. These deferred taxes had been provided in 1973 on the gain from insurance proceeds resulting from the sinking of one of the ocean shipping subsidiary's vessels. Such proceeds have been used to satisfy obligations to non-United States parties and will not be repatriated in the foreseeable future.

Minority Interest

Minority interest decreased by $7.2 million, or 48 per cent, to $7.9 million in 1976, following a decrease of $5.6 million, or 27 per cent, to $15.1 million in the previous year.

The 1976 after-tax operating loss of IU's 53 per cent-owned agribusiness subsidiary, C. Brewer and Company, Limited, decreased minority interest by $8.1 million. Part of this decrease was offset by the $1.2 million increase in minority interest stemming principally from the public issues of common and preferred stock in 1976, and a preferred issue in 1975, by IU's 66 per cent-owned utility services subsidiary, Canadian Utilities Limited.

In 1975, the decrease of $5.6 million in minority interest was a result of the lower earnings of C. Brewer and Company and higher earnings of Canadian Utilities, of which $9.9 million and $4.6 million, respectively, were applicable to minority shareholders.

Financial Position

Total invested capital, including minority interest in subsidiaries, increased by $258.4 million, or 16 per cent, to $1,909.1 million in 1976. Shareholders' equity increased by $14.7 million, or two per cent, to $621.3 million, and minority interest in subsidiaries increased by $60.8 million, or 36 per cent, to $228.3 million. Total debt increased by $183.0 million, or 21 per cent, to $1,059.5 million.

Total assets rose by $287.2 million, or 14 per cent, to $2,396.5 million at year-end 1976. The primary increases were in assets of the ocean shipping and utility services subsidiaries.

Capital Expenditures

Capital expenditures in 1976 totaled $370.0 million, an increase of 24 per cent from $297.4 million in 1975. For 1977, the company plans capital expenditures of $450.8 million, an increase of 22 per cent, with most of the expenditures planned for ocean shipping and utility services.

In millions	1976 actual	1977 forecast
Ocean shipping	$186.5	$211.5
Land transportation	35.7	53.8
Distribution services	3.4	3.4
Utility services	101.2	140.0
Industrial products and services	20.3	29.7
Agribusiness products and services	17.0	7.3
Total major markets	364.1	445.7
Non-major markets	5.9	5.1
Total capital expenditures	$370.0	$450.8

Retained cash flow and new financing at the operating company level are the principal sources of financing for IU's capital expenditures.

Capital expenditures forecasted for ocean shipping relate to vessels scheduled for delivery in 1977 and beyond. These vessel commitments include three liquefied natural gas (LNG) carriers, one liquefied petroleum gas (LPG) carrier and one product/chemi-

cal carrier. In addition to committed capital expenditures for vessels in 1977, capital expenditures of $91.6 million are planned for 1978.

Capital expenditures for the land transportation group are primarily related to truck and trailer purchases and to terminal facilities.

The distribution services group's expenditures are related to equipment purchases and warehouse facilities.

Of the total capital expenditures for utility services, $18.5 million and $14.0 million represent expenditures in 1977 and 1976, respectively, for General Waterworks Corporation; while $121.5 million and $87.2 million represent expenditures in 1977 and 1976, respectively, for Canadian Utilities Limited. The General Waterworks expenditures are for various water and sewage facilities; the Canadian Utilities expenditures are for electric and gas transmission and distribution systems and for generating plants.

Capital expenditures for the industrial products and services group are primarily associated with equipment purchases by International Mill Service.

In the agribusiness products and services group, capital expenditures include normal replacement items for all sectors of C. Brewer and Company's operations, as well as development expenditures relating to the further expansion of cardamom spice and macadamia nut production.

Financings

IU and its subsidiaries arranged more than $500 million of financings during 1976. These financings involved a wide range of transactions, including ship mortgages and other vessel financings, public offerings in both the Canadian and Eurobond markets, institutional private placements, and short- and medium-term bank credits. As usual, virtually all of the financings were done at the operating company level, based on each subsidiary's credit capacity, without guarantees from the parent corporation.

Of particular note was the progress made during the year in financing Gotaas-Larsen's new vessels. Financings totaling $224.7 million were completed in connection with the deliveries of two LNG carriers, an ultra large crude carrier (ULCC), a product/chemical carrier and two semi-submersible drilling rigs. Additionally, financings totaling $118.0 million were committed for an LNG carrier and a product/chemical carrier to be delivered in 1977 and an LPG carrier to be delivered in 1978.

An additional $86.9 million in financing was completed with the delivery of the LNG carrier "Golar Freeze" in February 1977. With the completion of this transaction, financings are in place for all of the remaining new building deliveries scheduled through 1977.

Canadian Utilities Limited's financing requirements in 1976, totaling $114.5 million in Canadian dollars, were obtained from Canadian sources. A $50.0 million public debenture offering was issued in February; a $24.5 million public offering of common shares was made to Canadian investors in October; and a $40.0 million preferred stock offering was issued in December. IU did not purchase any of the common stock issued, which made a larger number of shares available for trading in Canada and thus enhanced the marketability of Canadian Utilities' securities. As a result, IU's ownership of Canadian Utilities was reduced from approximately 74 per cent to 66 per cent.

Institutional private placements totaling $48.0 million were completed during 1976 for General Waterworks Corporation, Ryder Truck Lines and a subsidiary of C. Brewer and Company, Limited. Other subsidiary financings included $27.0 million of short- and medium-term bank credits, and the renewal of various short-term bank credit lines.

In addition to the ship mortgage commitments discussed above, the company and its subsidiaries had unused credit facilities of more than $230.0 million at December 31, 1976.

Five-Year Financial Summary

In thousands, except per share data

		1976	1975	1974	1973	1972
Operations summary	Revenues and other income	**$1,957,648**	$1,823,355	$1,981,703	$1,547,652	$1,234,359
	Cost of sales, other costs, and expenses	**1,821,213**	1,642,151	1,755,628	1,370,859	1,103,567
	Earnings before interest and taxes	**136,435**	181,204	226,075	176,793	130,792
	Interest and debt expense	**66,314**	55,868	64,417	60,942	39,537
	Income taxes	**19,813**	28,048	53,299	32,052	23,703
	Minority interest	**7,863**	15,107	20,719	8,688	8,633
	Earnings before extraordinary item	**42,445**	82,181	87,640	75,111	58,919
	Extraordinary item	—	—	—	—	684
	Net earnings	**$ 42,445**	$ 82,181	$ 87,640	$ 75,111	$ 59,603
Earnings per share	Primary:					
	Operations	**$1.25**	$2.50	$2.68	$2.35	$1.85
	Extraordinary item	—	—	—	—	.02
		$1.25	$2.50	$2.68	$2.35	$1.87
	Assuming full dilution:					
	Operations	**$1.18**	$2.31	$2.43	$2.11	$1.62
	Extraordinary item	—	—	—	—	.02
		$1.18	$2.31	$2.43	$2.11	$1.64
Other per share data	Dividends per common share	**$.875**	$.85	$.80	$.75	$.725
	Shareholders' equity[1]	**$18.13**	$17.81	$16.31	$14.37	$12.82
	Year-end closing price of common stock	**11⅞**	9¾	8⅝	18½	24⅛
Financial position	Total assets	**$2,396,518**	$2,109,337	$1,984,654	$1,669,544	$1,553,746
	Total debt	**$1,059,535**	$876,583	$837,659	$732,293	$726,999
	Minority interest in subsidiaries	**$228,316**	$167,544	$124,322	$109,456	$97,228
	Shareholders' equity	**$621,257**	$606,585	$552,477	$487,912	$434,486
Other statistics	Property, plant and equipment	**$2,042,032**	$1,722,722	$1,607,742	$1,435,250	$1,313,722
	Capital expenditures	**$369,964**	$297,405	$252,176	$159,243	$190,877
	Average common and common equivalent shares	**32,805**	32,308	32,097	31,186	30,646

[1] Based on common stock and Special Stock, Series A at year-end.

Sources of Revenues and Earnings

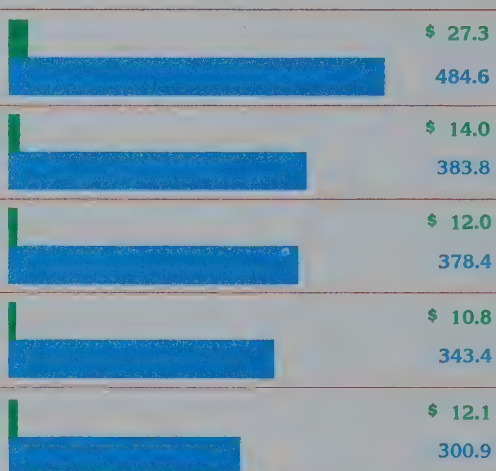
In thousands, except per share data

	1976	
	Revenues	Earnings
Contributions by major markets:		
Ocean shipping	$ 145,051	$ 4,027
Land transportation	484,599	27,300
Distribution services	469,978	1,341
Utility services	355,114	35,375
Industrial products and services	183,073	21,842
Agribusiness products and services[1]	254,640	(4,818)
Total major markets	1,892,455	85,067
Other[2]	65,193	750
Corporate expenses, including interest	—	(13,954)
Earnings before income taxes and foreign currency translation adjustments	—	71,863
Income taxes[3]	—	(28,596)
Earnings before foreign currency translation adjustments	—	43,267
Foreign currency translation adjustments	—	(822)
Total revenues	$1,957,648	
Net earnings		$ 42,445
Primary earnings per share		$ 1.25

(1) *The contribution of C. Brewer and Company, Limited, a 53 per cent-owned subsidiary, includes divested businesses and foreign currency translation adjustments, and is on an after-tax basis.*
(2) *Includes development businesses, non-major market operations, and businesses divested.*
(3) *Consolidated income taxes, including C. Brewer and Company, Limited: 1976—$19,813; 1975—$28,048; 1974—$53,299; 1973—$32,052; 1972—$23,703.*

Ocean Shipping
In millions

Land Transportation
In millions

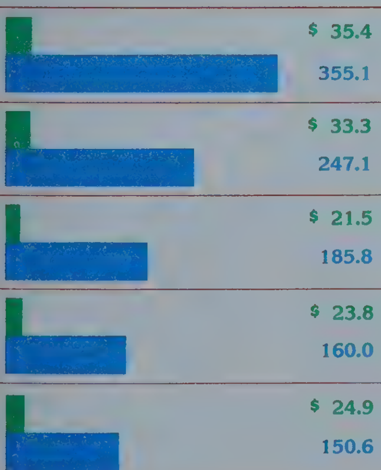


Distribution Services
In millions

Earnings Contribution
Revenues

1975		1974		1973		1972	
Revenues	Earnings	Revenues	Earnings	Revenues	Earnings	Revenues	Earnings
$ 150,818	$ 12,256	$ 206,767	$ 42,521	$ 195,864	$ 64,093	$ 134,887	$ 33,149
383,771	13,983	378,375	11,987	343,450	10,766	300,932	12,076
445,597	11,740	430,325	13,635	273,266	7,134	179,003	5,865
247,053	33,274	185,776	21,505	160,037	23,794	150,628	24,859
162,457	21,521	136,976	14,955	106,677	12,647	86,790	9,070
296,151	3,697	302,445	13,976	189,189	3,514	143,250	3,635
1,685,847	96,471	1,640,664	118,579	1,268,483	121,948	995,490	88,654
137,508	18,134	341,039	13,819	279,169	8,298	238,869	4,569
—	(15,385)	—	(22,514)	—	(20,346)	—	(13,268)
—	99,220	—	109,884	—	109,900	—	79,955
—	(23,026)	—	(24,299)	—	(27,043)	—	(18,934)
—	76,194	—	85,585	—	82,857	—	61,021
—	5,987	—	2,055	—	(7,746)	—	(1,418)
$1,823,355		$1,981,703		$1,547,652		$1,234,359	
	$ 82,181		$ 87,640		$ 75,111		$ 59,603
	$ 2.50		$ 2.68		$ 2.35		$ 1.87

Utility Services
In millions



Industrial Products and Services
In millions

Agribusiness Products and Services
In millions

Financial Statements

Consolidated Statements of Earnings

In thousands, except per share data

For the years ended December 31,	1976	1975
Revenues and other income	**$1,957,648**	$1,823,355
Costs and expenses:		
Cost of products sold, other operating costs and expenses, excluding depreciation and amortization	**1,483,961**	1,351,829
Selling, general and administrative expenses, excluding depreciation and amortization	**252,991**	216,885
Depreciation and amortization	**84,261**	73,437
Interest and debt expense	**66,314**	55,868
Income taxes	**19,813**	28,048
Minority interest	**7,863**	15,107
	1,915,203	1,741,174
Net earnings	**$ 42,445**	$ 82,181
Earnings per share:		
Primary	**$ 1.25**	$ 2.50
Assuming full dilution	**$ 1.18**	$ 2.31

Consolidated Statements of Additional Paid-In Capital

In thousands

	1976	1975
Amount at beginning of year	**$ 125,610**	$ 122,616
Add (deduct):		
Capital in excess of par or stated value of shares issued upon:		
Conversion of Special Stock, Series A into common	**3,798**	6,113
Conversion of preferred stock into common	**822**	797
Other adjustments	**(1,262)**	(3,916)
Amount at end of year	**$ 128,968**	$ 125,610

Consolidated Statements of Retained Earnings

In thousands

	1976	1975
Amount at beginning of year	**$ 421,811**	$ 367,465
Net earnings	**42,445**	82,181
	464,256	449,646
Deduct:		
Dividends:		
Preferred	**1,348**	1,419
Common (per share: 1976—$0.875; 1975—$0.85)	**25,586**	24,111
Reissuance of treasury stock	**2,286**	2,305
	29,220	27,835
Amount at end of year	**$ 435,036**	$ 421,811

Certain items in 1975 have been reclassified to conform to current classifications.

See accompanying Notes to Financial Statements.

Consolidated Balance Sheets

In thousands

December 31,	1976	1975
Assets		
Current assets:		
Cash, including certificates of deposit, commercial paper, and Treasury bills (1976—$37,309; 1975—$64,410)	$ 111,092	$ 117,635
Accounts receivable, less allowance (1976—$8,347; 1975—$7,622)	269,431	287,827
Inventories	177,452	157,532
Prepaid expenses and other current assets	27,824	27,476
Total current assets	585,799	590,470
Long-term receivables, restricted cash deposits and investments	156,158	153,567
Property, plant and equipment	2,042,032	1,722,722
Less accumulated depreciation and amortization	472,924	435,686
Net property, plant and equipment	1,569,108	1,287,036
Deferred charges, less amortization	24,381	22,926
Intangibles, net, and other assets	61,072	55,338
Total assets	$2,396,518	$2,109,337
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	$ 47,737	$ 52,437
Accounts payable and accrued liabilities	281,201	264,880
Income taxes	8,195	32,729
Long-term debt—current maturities	87,441	67,288
Total current liabilities	424,574	417,334
Long-term debt, excluding current maturities	924,357	756,858
Other liabilities, principally utility construction advances	173,498	142,254
Deferred income taxes	24,516	18,762
Minority interest in subsidiaries	228,316	167,544
Shareholders' equity:		
Capital stock	87,889	92,510
Additional paid-in capital	128,968	125,610
Retained earnings	435,036	421,811
	651,893	639,931
Less shares in treasury, at cost	30,636	33,346
Total shareholders' equity	621,257	606,585
Total liabilities and shareholders' equity	$2,396,518	$2,109,337

Certain items in 1975 have been reclassified to conform to current classifications.

See accompanying Notes to Financial Statements.

Consolidated Statements of Changes in Financial Position

In thousands

For the years ended December 31,	1976	1975
Sources of funds:		
Net earnings	$ 42,445	$ 82,181
Add net charges not requiring current funds, principally depreciation, amortization, minority interest, etc.	77,020	56,632
Provided from operations	119,465	138,813
Disposition of property, plant and equipment	48,877	96,155
Disposition of other noncurrent assets	11,599	26,058
Issuance of long-term debt	348,249	253,850
Increase in other liabilites	31,746	25,078
Issuance of capital stock, including treasury stock	951	1,024
Issuance of capital stock by a subsidiary	62,395	49,205
Total sources	623,282	590,183
Uses of funds:		
Purchase of property, plant and equipment	369,964	297,405
Acquisition of other noncurrent assets	52,766	60,110
Reduction of long-term debt	180,750	208,756
Reduction of other liabilities	3,300	5,923
Redemption and conversion of preferred stock	947	918
Dividends on preferred and common stock	26,934	25,530
Other	532	9,636
Total uses	635,193	608,278
Decrease in working capital	$(11,911)	$(18,095)
Changes in working capital:		
Cash	$(6,543)	$ 17,756
Accounts receivable, less allowance	(18,396)	3,720
Inventories	19,920	(36,978)
Prepaid expenses and other current assets	348	(13,862)
Total	(4,671)	(29,364)
Notes payable	(4,700)	(16,663)
Accounts payable and accrued liabilities	16,321	4,643
Income taxes	(24,534)	(9,742)
Long-term debt—current maturities	20,153	10,493
Total	7,240	(11,269)
Decrease in working capital	$(11,911)	$(18,095)

Certain items in 1975 have been reclassified to conform with current classifications.

See accompanying Notes to Financial Statements.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and substantially all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in unconsolidated majority-owned subsidiaries and investments in companies and joint ventures owned more than 20% are accounted for on the equity basis, and the appropriate portion of the earnings of such companies is included in consolidated earnings.

Inventories

Inventories generally are stated at the lower of cost or market. Due to diversified operations, several bases of determining cost are used.

Merchandise and commodities inventories of a 53%-owned subsidiary include items valued on the last-in, first-out (LIFO) basis with an aggregate cost of $6,860,000 and $6,652,000 at December 31, 1976 and 1975, respectively, which is approximately $7,775,000 and $6,290,000, respectively, less than the cost of such inventories valued on the first-in, first-out (FIFO) basis. There was no invasion of the LIFO inventory layers in 1976 or 1975.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided principally on the straight-line basis, except for certain ocean shipping subsidiaries which use the declining-balance method, over the estimated useful lives of the related assets. Upon sale or retirement of non-utility properties, costs and related depreciation are eliminated and gains or losses are recorded. Upon sale or retirement of depreciable utility properties, costs are transferred to accumulated depreciation and no gain or loss is recognized.

Certain of the Corporation's non-utility subsidiaries have established policies of capitalizing interest costs, at approximate current borrowing rates, incurred in connection with construction or development of fixed assets, mainly ocean vessels, in order to distribute such costs over the revenue-producing lives of the assets.

Interest and other overhead costs of $16,309,000 in 1976 and $16,641,000 in 1975, relating principally to the construction of utility plant and vessels, were capitalized.

Intangibles

Intangibles consist of: (a) trucking subsidiaries' operating rights; (b) net excess of cost of investments in subsidiaries over underlying net assets; and (c) other intangibles.

Intangibles having a limited life are amortized over their estimated useful lives. The excess of the cost of investments in subsidiaries over net assets of companies acquired is not being amortized, except that portion relating to companies acquired after October 31, 1970, as long as there is no present indication that such excess has a determinable life or existence.

Pension Plans

The Corporation and certain of its subsidiaries have various insured or trusteed pension plans, some of which require employee contributions. These plans generally provide for normal retirement at age 65. The unfunded past service liabilities under such plans are amortized over periods not exceeding 40 years. It is the Corporation's general policy to fund pension costs accrued.

At December 31, 1976, based on the latest actuarial reports, the total unfunded past service liabilities amounted to approximately $64,671,000 and unfunded vested benefits were estimated to be $10,365,000. Total pension costs charged against earnings during the years ended December 31, 1976 and 1975 were $12,536,000, and $11,553,000, respectively. Various pension plans were amended to recognize increased benefits and higher levels of compensation.

Income Taxes

Provision is made for deferred income taxes and future income tax benefits applicable to timing differences between book and taxable income, except that certain utility subsidiaries are claiming depreciation and certain other expenses for income tax purposes in excess of the amounts recorded in the accounts without providing for the related income tax deferral. In setting rates, these utilities recover only income taxes payable currently.

Certain subsidiaries operate in countries where their earnings are substantially free of taxation or are taxed at rates effectively lower than in the United States. Income taxes have been provided on that portion of the earnings of such subsidiaries considered not to be continuously reinvested outside the United States.

Investment tax credits are accounted for by the flow-through method, except that utility subsidiaries allocate the credits over the depreciable lives of the related assets.

Earnings Per Share

Primary earnings per share, computed after deducting the dividend requirement on preferred stock, are based on the average number of shares of both common and Special Stock, Series A outstanding each year, and the dilutive effect of stock option and stock purchase plans, and warrants. The Special Stock, Series A has been included on a basis equivalent to 2.8466 and 2.7372 common shares of the Corporation for 1976 and 1975, respectively, the applicable conversion rates.

Fully-diluted earnings per share reflect, in addition to the primary computation, (a) the conversion of convertible preferred stock and convertible bonds, (b) the elimination of the dividend requirements on such convertible preferred stock and the interest, net of income taxes, applicable to the convertible bonds, and (c) the conversion of Special Stock, Series A at the rates in effect 10 years after each period.

Business Combinations and Dispositions

During 1976 and 1975, the Corporation acquired, in purchase transactions, several companies for notes and cash amounting to an aggregate consideration of $4,882,000 and $27,108,000, respectively. The operations of these companies are included in the consolidated financial statements from the dates of acquisition. The results of operations for 1976 and 1975 would not have been significantly influenced had these companies been consolidated as of January 1, 1975.

During the two years ended December 31, 1976, the Corporation disposed of three manufacturing companies, one food distribution company, the shipbuilding and construction division of a subsidiary and certain other small companies. The revenues and net earnings of such dispositions for the years ended December 31, 1976 and 1975 were as follows:

	1976	1975
Revenues	$28,362,000	$224,687,000
Net earnings	(3,389,000)	855,000

Non-United States Operations

A summary of significant items with respect to non-United States operations is as follows:

1976	Working capital	Total assets	Revenues	Net earnings
Canadian—electric and gas	$ 4,610,000	$ 620,990,000	$301,768,000	$19,154,000
Various countries—ocean shipping	(31,493,000)	592,236,000	124,450,000	1,043,000
Other non-United States	17,459,000	117,426,000	118,852,000	3,034,000
Total non-United States	$ (9,424,000)	$1,330,652,000	$545,070,000	$23,231,000

1975	Working capital	Total assets	Revenues	Net earnings
Canadian—electric and gas	$(19,205,000)	$ 548,644,000	$198,929,000	$23,564,000
Various countries—ocean shipping	21,002,000	457,751,000	137,173,000	15,337,000
Other non-United States	13,433,000	94,837,000	117,394,000	4,512,000
Total non-United States	$ 15,230,000	$1,101,232,000	$453,496,000	$43,413,000

Total foreign exchange gains (losses) amounted to $(1,443,000) and $7,128,000 in 1976 and 1975, respectively.

Income Presentation

Included in revenues and other income are net product sales of $910,938,000 and $968,645,000 for 1976 and 1975, respectively.

Included in other income are the following significant items:

	1976	1975
Interest and dividends	$7,322,000	$ 8,736,000
Gain on sale of oil and gas properties	—	20,162,000
Gain on ships sold	7,402,000	1,177,000
Gain on sale or exchange of investments and certain other assets	6,108,000	1,718,000
Provision for loss on a receivable	—	(9,026,000)
Operations of divested subsidiaries	(6,687,000)	1,555,000

During 1976, the Corporation sold its investment in a division of a subsidiary and certain other properties resulting in a gain of $5,048,000. Income taxes of $2,352,000 have been recorded with respect to these dispositions.

During 1975, the Corporation sold several subsidiaries at a gain of $950,000, after application of reserves of $14,000,000 provided in prior years. Income taxes recoverable of $321,000 were recorded with respect to these dispositions. Income taxes with respect to the sale of oil and gas properties were $7,747,000.

A loss of $9,026,000 was recorded during 1975 on a receivable of the Corporation. Tax benefits of $3,470,000 were recorded on this charge.

In December 1976, an inward-charter on a 40%-owned tanker in layup was cancelled by an ocean shipping subsidiary. The cancellation charge amounted to approximately $3,704,000, net of $2,470,000 which represents the subsidiary's equity interest. The total cancellation fee has been included in other operating costs and expenses in the consolidated statements of earnings. No tax benefits were recorded with respect to this charge.

The pretax operating results of divested subsidiaries have been included in other income from the respective dates the Corporation committed itself to dispose of the companies.

Also in 1976 and 1975, the Corporation's 53%-owned subsidiary recorded losses in connection with the proposed sale in 1977 of a hotel and in 1975 wrote off costs related to land development projects aggregating $2,510,000 in 1976 and $13,283,000 in 1975. Income taxes of $978,000 and $6,404,000, respectively, were recorded with respect to these items. These costs have also been charged to other operating costs and expenses in the consolidated statements of earnings.

Inventories

The summary of inventories at December 31, 1976 and 1975 is shown in the table to the right.

	1976	1975
Finished products	$ 73,667,000	$ 63,948,000
Work in process	10,574,000	6,855,000
Raw materials and supplies	42,536,000	39,832,000
Merchandise and commodities	44,327,000	37,566,000
Other	6,348,000	9,331,000
	$177,452,000	$157,532,000

Long-Term Receivables, Restricted Cash Deposits and Investments

The carrying values of long-term receivables, restricted cash deposits and investments at December 31, 1976 and 1975 are shown in the following table:

	1976	1975
Long-term receivables	$ 33,544,000	$ 21,405,000
Restricted cash deposits	21,917,000	811,000
Land held for sale or development	25,171,000	31,284,000
Unconsolidated subsidiaries	16,614,000	17,648,000
Joint ventures, principally partnerships in vessels	34,082,000	59,322,000
Cooperatives	20,363,000	19,889,000
Other investments	9,699,000	10,367,000
Provision for loss	(5,232,000)	(7,159,000)
	$156,158,000	$153,567,000

In 1975, the Corporation carried its 65% interest in partnerships owning rigs, under construction, on the equity basis. The carrying value of these investments was $27,286,000 at December 31, 1975. In 1976, the rigs were delivered and the proportionate interests in the partnerships' accounts were reflected in the financial statements.

Dividends received from unconsolidated subsidiaries, joint ventures and cooperatives were $6,493,000 in 1976 and $2,991,000 in 1975.

In certain joint ventures in which certain ocean shipping subsidiaries are participants, a director of the Corporation, until May 1976, and certain directors and officers of the ocean shipping subsidiaries are venture participants. The ocean shipping subsidiaries' equity in the operating earnings (loss) of these ventures was $(641,000) in 1976 and $181,000 in 1975. The directors' and officers' equity in the operating earnings (loss) was $(574,000) in 1976 and $30,000 in 1975. In addition, one of these ventures sold a vessel in 1975 and the ocean shipping subsidiaries' equity in the gain was $990,000 and the directors' and officers' equity was $1,716,000.

Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 1976 and 1975 is shown in the following table:

	1976	1975
Ocean shipping	$ 569,532,000	$ 387,606,000
Land transportation	202,225,000	175,043,000
Distribution services	41,985,000	40,370,000
Utility services	916,334,000	830,358,000
Industrial products and services	120,948,000	104,622,000
Agribusiness products and services	170,514,000	169,688,000
Other	20,494,000	15,035,000
	$2,042,032,000	$1,722,722,000

Included above are two majority-owned semi-submersible oil drilling rigs with a depreciated cost of approximately $54,000,000 which were in layup at December 31, 1976. In addition, two minority-owned drilling rigs, one minority-owned tanker and one inward-chartered tanker were also in layup. Charters for one majority-owned and two minority-owned rigs are currently being negotiated.

Debt

Short-term notes payable at December 31, 1976 and December 31, 1975 have an average interest rate of 7% and 8%, respectively, and represent borrowings by subsidiaries under lines of credit of which $2,330,000 and $30,869,000, respectively, are secured. During 1976 and 1975, the maximum borrowings under short-term credit arrangements amounted to $62,000,000 and $110,000,000, respectively; the average borrowings under these agreements were $37,000,000 and $59,000,000, respectively, and had weighted average interest rates of 8%. At December 31, 1976, unused short-term credit facilities amounted to $116,000,000 and unused long-term credit facilities amounted to $117,000,000.

Long-term debt at December 31, 1976 and 1975 payable by subsidiaries is summarized in the following table. Interest rates on approximately $387,600,000 of long-term debt outstanding at December 31, 1976 are based on United States Prime, Eurodollar, or other fluctuating interest rates.

	1976	1975
First Mortgage Bonds:		
Due 1976 to 1996; 3½% to 9¾%		
(weighted average interest rate 6.4% in both years)	$ 121,506,000	$124,114,000
Other:		
Secured:		
Due 1976 to 2006; 5% to 14½%		
(weighted average interest rate 1976—7.6%; 1975—7.8%)	395,735,000	260,091,000
Unsecured:		
Due 1976 to 2000; 4¾% to 13½%		
(weighted average interest rate 1976—8.3%; 1975—8%)	494,557,000	439,941,000
	1,011,798,000	824,146,000
Less current maturities	87,441,000	67,288,000
	$ 924,357,000	$756,858,000

The mortgage bonds and secured debt are subject to various indentures and agreements requiring, among other things, either the mortgaging of properties, the pledging of investments in subsidiaries, or in certain instances a combination of both. Sinking fund requirements and installments of long-term debt maturing in the years 1978, 1979, 1980 and 1981 amount to approximately $139,880,000, $103,182,000, $112,105,000 and $95,121,000, respectively, after deducting bonds which have been repurchased and excluding requirements which may be satisfied by certification of property additions.

The Corporation maintains cash balances at certain banks related, in part, to the outstanding balance of certain bank loans and, in part, to anticipation of future credit negotiations. At December 31, 1976, the bank-collected balance under such arrangements, as reported by the respective banks, was approximately $70,000,000 and the related book balance was approximately $56,000,000. The aggregate average bank-collected balance maintained during 1976, as reported by the respective banks, was approximately $47,000,000 and the related average month-end book balance was approximately $38,000,000. These funds are not subject to withdrawal restrictions.

The bond indentures and note agreements executed by the Corporation and certain subsidiaries place limitations on the Corporation and its subdiaries, including restrictions on the payment of dividends. Of the consolidated retained earnings at December 31, 1976, approximately $76,000,000 was free from such restrictions.

Income Taxes

The components of the provision for income taxes for the years ended December 31, 1976 and 1975 are shown in the table to the right.

	1976	1975
Current:		
Federal	$ 4,461,000	$ 30,792,000
State and local	2,220,000	5,228,000
Non-United States	15,606,000	14,784,000
Investment tax credit	(3,854,000)	(2,882,000)
	18,433,000	47,922,000
Deferred:		
Federal	2,330,000	(20,846,000)
State and local	(199,000)	(587,000)
Non-United States	(751,000)	1,559,000
	1,380,000	(19,874,000)
	$19,813,000	$ 28,048,000

The sources of the differences between earnings for financial statement purposes and tax purposes and the tax effects were as follows:

	1976	1975
Excess tax over book (book over tax) depreciation	$ 1,063,000	$ (1,826,000)
Excess of tax over book revenues from sugar sales (included in current liabilities)	(769,000)	(1,784,000)
Recovery of (provision for) loss on investments and other assets	4,341,000	(6,519,000)
Reversal of previously provided deferred taxes on non-United States earnings	—	(7,976,000)
Excess of book over tax expenses for compensation and related charges	(1,543,000)	(1,147,000)
Other	(1,712,000)	(622,000)
	$ 1,380,000	$(19,874,000)

The Corporation's effective tax rates of 31.8% and 25.4% for the years 1976 and 1975, respectively, were less than the United States income tax rate of 48.0% for the reasons shown in the table to the right.

It is the Corporation's policy not to provide income taxes on undistributed earnings of non-United States subsidiaries, since such earnings are being continuously reinvested in plant and vessels outside the United States. At December 31, 1976, the Corporation had not provided income taxes on $155,000,000 of such earnings.

In 1975, the Corporation reversed a charge for deferred income taxes in the amount of $7,976,000 made in 1973. The charge was originally made because of the anticipated repatriation of insurance proceeds with respect to a vessel, owned by a non-United States subsidiary, which sank in November, 1973. Such insurance proceeds have been used to satisfy obligations to non-United States parties and as a result will not be repatriated in the foreseeable future.

	1976	1975
Federal income tax rate	48.0%	48.0%
Earnings from non-United States subsidiaries continuously reinvested outside the United States	(.6)	(8.6)
Earnings taxed below United States rates	(5.8)	(.9)
Accelerated depreciation and other expenses claimed by utility operations	(11.6)	(6.3)
Investment tax credit	(6.2)	(2.6)
Minority interest with no tax effect	6.1	6.6
State and local income taxes, net of federal tax benefit	1.7	2.2
Capital gains rate	.5	(3.6)
Foreign currency translation	1.1	(2.6)
Reversal of previously provided deferred taxes on non-United States earnings	—	(7.2)
Other	(1.4)	.4
Effective tax rate	31.8%	25.4%

Capital Stock

The authorized and issued capital stock of the Corporation at December 31, 1976 and 1975 is summarized below:

Issued at December 31,	1976 Shares	1976 Stated or par value	1975 Shares	1975 Stated or par value
Series preferred stock, without par value:				
Authorized: 4,814,708 shares				
Issued:				
$5.00 series (in treasury at both dates—3,760 shares)	93,302	$ 9,563,000	93,302	$ 9,563,000
$1.25 convertible series (in treasury at both dates—304,532 shares) with aggregate liquidation value at December 31, 1976 of $24,924,000	996,963	15,109,000	1,059,466	16,056,000
	1,090,265	24,672,000	1,152,768	25,619,000
Series preference stock, without par value:				
Authorized: 5,876,268 shares				
Issued: Special Stock, Series A (in treasury at both dates—176,371 shares)	1,306,307	25,292,000	1,544,633	29,906,000
Common stock, par value $1.25 per share:				
Authorized: 60,000,000 shares (reserved for conversion of preferred stock—1,595,140 shares; for conversion of Special Stock, Series A—5,724,498 shares; for conversion of bonds of a subsidiary—196,625 shares; for exercise of warrants attached to bonds of a subsidiary—180,000 shares; and for stock option and stock purchase plans—2,819,626 shares)				
Issued (in treasury 1976—751,775 shares; 1975—875,043 shares)	30,340,103	37,925,000	29,587,893	36,985,000
Total		$87,889,000		$92,510,000

The holders of preferred stock are entitled to cumulative dividends payable at the respective rates set out in the titles of the various series and have voting rights. The holders of the $5.00 Preferred Stock, upon liquidation or redemption, are entitled to receive the stated value plus accrued and unpaid dividends. The $1.25 Convertible Preferred Stock is redeemable, at the Corporation's option, at $25 per share. Each share of the $1.25 Convertible Preferred Stock is convertible into 1.6 common shares.

Holders of Special Stock, Series A are not entitled to receive dividends; they have voting rights and on liquidation are entitled to receive $15 per share subject to the liquidation rights of the preferred shareholders. The Special Stock, Series A is convertible into 2.8466 and 2.7372 shares of common stock through December 31, 1977 and 1976, respectively, after which the conversion rates increase annually to a maximum of 4.3822 common shares on January 1, 1988. It is redeemable, at the Corporation's option, after December 31, 1977 at $70 per share.

Changes in capital stock during the years ended December 31, 1976 and 1975 are summarized as follows:

	1976			1975		
	Preferred	Special Stock, Series A	Common	Preferred	Special Stock, Series A	Common
Shares issued at beginning of year	1,152,768	1,544,633	29,587,893	1,213,374	1,925,101	28,482,654
Conversion of Special Stock, Series A	—	(238,326)	652,210	—	(380,468)	1,001,145
Conversion of preferred stock	(62,503)	—	100,000	(60,606)	—	96,961
Exercised under stock purchase plan	—	—	—	—	—	883
Conversion of bonds of a subsidiary	—	—	—	—	—	6,250
Shares issued at end of year	1,090,265	1,306,307	30,340,103	1,152,768	1,544,633	29,587,893

Changes in treasury stock during the years ended December 31, 1976 and 1975 consisted of the issuance of 492 shares and 167,354 shares, respectively, of common stock for the employee stock purchase plan. In addition, 122,776 shares of treasury stock were issued in 1976 and an additional 15,674 shares will be issued in 1977 in settlement of a subsidiary acquisition.

At December 31, 1976, a wholly-owned subsidiary had outstanding $3,146,000 principal amount of bonds due in 1986, which are convertible prior to maturity into common stock of the Corporation at $16 per share. In addition, at December 31, 1976, that subsidiary had outstanding $5,656,000 principal amount of bonds due in 1978 originally issued with 15,000 warrants entitling the holder to subscribe to 12 shares of common stock of the Corporation not later than April 30, 1978 at an aggregate price of $258.

Stock Options

Options to certain officers and employees of the Corporation and its subsidiaries were outstanding at December 31, 1976 and 1975 pursuant to Qualified Stock Option Plan C, a Non-qualified Stock Option and Stock Unit Award Plan, and Stock Option Plan D. Options are exercisable in varying amounts over periods from one to 10 years from the date of grant, at prices from 85% to 100% of the fair market value of the stock at the date of grant.

The changes in the outstanding options during 1976 and 1975 were as follows:

	1976	1975	
	Common Stock	$1.25 Convertible Preferred Stock	Common Stock
Shares under option at beginning of year	726,914	500	533,475
Granted	27,250	—	342,562
Cancelled or expired	(48,928)	(500)	(149,123)
Shares under option at end of year	705,236	—	726,914
Average option price	$15.29	—	$15.80

At December 31, 1976, there were 845,838 shares of common stock reserved for future grants under Stock Option Plan D.

Certain of the qualified options for common stock, if not exercised prior to expiration date, convert into non-qualified stock options or into stock unit awards. Stock units awarded under the non-qualified plan entitle the grantee, subject to the provisions of the plan, to a cash distribution rather than common stock of the Corporation. To the extent that a grantee elects to exercise an option, his right to stock units is extinguished and vice versa. Of the 705,236 shares under option at December 31, 1976, 404,300 shares have the aforementioned features. In addition, a qualified stock option which is not exercised prior to May 21, 1981 automatically becomes a non-qualified option on that date by operation of law.

Under the employee stock purchase plan, 1,268,552 shares of common stock are available for future issuance to eligible employees. During 1976 and 1975, 492 and 168,237 shares, respectively, of common stock were purchased at approximately $8.13 per share under an offering made during 1973. No new offering has been made.

Leased Assets and Lease Commitments

Rental expense, including short-term leases and immaterial amounts of contingent rents, was $97,220,000 and $105,830,000 for 1976 and 1975, respectively, of which $9,469,000 and $9,502,000, respectively, were applicable to financing leases. Sublease income from these leases, which is included in revenues and other income, was $36,892,000 and $58,857,000, respectively.

At December 31, 1976, the minimum rental commitments, net of sublease income of $53,988,000, under all noncancellable leases were approximately:

Year	Type of property				Total commitment	Financing leases	Sublease income
	Real property	Terminal facilities	Vessels	Other			
1977	$ 5,332,000	$ 2,875,000	$ 1,800,000	$ 5,520,000	$ 15,527,000	$ 2,131,000	$25,481,000
1978	4,800,000	2,144,000	3,900,000	4,510,000	15,354,000	1,650,000	18,070,000
1979	4,495,000	1,561,000	5,400,000	3,707,000	15,163,000	5,730,000	7,012,000
1980	3,986,000	1,254,000	6,700,000	2,722,000	14,662,000	7,288,000	2,472,000
1981	3,190,000	951,000	3,400,000	2,245,000	9,786,000	6,576,000	426,000
1982-86	10,569,000	2,335,000	15,500,000	5,690,000	34,094,000	26,534,000	370,000
1987-91	6,516,000	1,357,000	15,500,000	2,324,000	25,697,000	23,032,000	107,000
1992-96	3,751,000	1,112,000	15,500,000	40,000	20,403,000	18,847,000	43,000
Thereafter	8,389,000	852,000	3,800,000	7,000	13,048,000	11,290,000	7,000
	$51,028,000	$14,441,000	$71,500,000	$26,765,000	$163,734,000	$103,078,000	$53,988,000

The capitalization of financing leases during 1976 and 1975 would not have significantly influenced earnings.

The present values at December 31, 1976 and 1975 of the minimum rental commitments applicable to noncapitalized financing leases are given below:

	Weighted average interest rate		Range of interest rates used in present value computation		Present values of minimum rental commitments	
	1976	1975	1976	1975	1976	1975
Real property	6⅛%	6⅝%	1½%-13¾%	1½%-13¾%	$12,504,000	$13,973,000
Terminal facilities	8½%	8½%	8½%	8½%	2,262,000	2,290,000
Vessels	8½%	8½%	7½%-11⅝%	7½%-11⅝%	35,903,000	40,054,000
Other	9⅛%	8⅜%	2⅛%-16%	1⅕%-18⅝%	14,718,000	16,294,000
					$65,387,000	$72,611,000

Contingencies and Commitments

At December 31, 1976, outstanding contractual commitments of certain subsidiaries amounted to approximately $303,000,000 for the construction of vessels; approximately $22,000,000 for the purchase of equipment and operating rights for the trucking companies; and approximately $67,000,000 for the construction of new utility plant. Mortgage financing of $246,811,000 has been arranged with respect to a portion of these commitments. Of this total amount, $56,074,000 is available subject to agreement on security. A total of $257,928,000 of the outstanding contractual commitments at December 31, 1976 becomes due for payment in 1977.

Contractual commitments for the construction of vessels do not include a liquefied natural gas carrier on which delivery has been deferred indefinitely. The cost of the vessel if delivered in 1979 would be approximately $100,000,000. In addition, certain subsidiaries are directly liable for their proportionate share of mortgage loans on vessels in operation in the amount of $32,108,000 at December 31, 1976, and are contingently liable for the other partners' share in the amount of $50,176,000.

A subsidiary is a defendant in two legal proceedings brought in 1976 by real estate developers in Florida claiming damages as a result of the alleged failure of the subsidiary to provide sewage disposal services for proposed developments. One of the plaintiffs is claiming compensatory damages in excess of $10,000,000 and punitive damages of $20,000,000. The other plaintiff is claiming compensatory damages in excess of $100,000. The subsidiary is aware that there may be other developers in a position to make similar claims because the alleged failure to provide sewage disposal service arose directly from a moratorium imposed by the Metropolitan Dade County (Florida) Department of Environmental Resources preventing the issue of the necessary building permits to connect projects to the subsidiary's sewage treatment plant. Management believes that it has a good defense against the claims alleged and that the liability, if any, will not have a material effect on the financial statements.

The By-laws of the Corporation provide for the indemnification of its directors, officers, employees or agents against liability and expenses with respect to their conduct in such capacities and when serving in similar capacities for other corporations at the request of the Corporation. In the opinion of the Corporation's counsel there is no reasonable probability at present of any substantial liabilities arising as a result of this By-law provision.

Quarterly Operating Results
(Unaudited)

The following is a summary of the unaudited quarterly operating results for the year ended December 31, 1976:

	Revenues and other income	Cost of products sold, other operating costs and expenses	Net earnings	Earnings per share	
				Primary	Assuming full dilution
First quarter	$ 473,242,000	$ 348,288,000	$ 9,927,000	$ .29	$ .28
Second quarter	476,688,000	356,687,000	14,306,000	.43	.40
Third quarter	471,860,000	360,932,000	6,891,000	.20	.19
Fourth quarter	535,858,000	418,054,000	11,321,000	.33	.31
	$1,957,648,000	$1,483,961,000	$ 42,445,000	$ 1.25	$ 1.18

Replacement Cost
(Unaudited)

In accordance with Rule 3-17 of Regulation S-X adopted by the Securities and Exchange Commission on March 23, 1976, management has estimated the current replacement cost of certain inventories and productive capacity of the Corporation and its consolidated subsidiaries as of December 31, 1976, together with related amounts of cost of sales and depreciation and amortization calculated on the basis of average replacement cost for the year then ended.

The estimated replacement cost of inventories and the related amount of cost of sales calculated on the basis of average replacement cost do not significantly exceed the related historical dollar amounts, because the majority of the Corporation's subsidiaries are engaged in service-related activities and few of the subsidiaries manufacture goods for resale.

The estimated replacement cost of certain property, plant and equipment and the related amount of depreciation and amortization calculated on the basis of average replacement cost significantly exceed the related historical dollar amounts for two primary reasons. The Corporation's utility services subsidiaries are mature capital-intensive businesses with very long-lived assets. Secondly, despite the continuing tanker market slump, vessel construction costs and related financing costs continue to increase.

Although the replacement cost data has, in the Corporation's view, been estimated in a reasonable manner, it is the opinion of management that the data is of limited value because of the subjectivity necessarily involved in making these estimates. Accordingly, the data should not be construed to represent either the Corporation's intent to replace existing assets or, even if such assets were replaced, to represent the actual costs of such future replacements or the subsequent costs and expenses to be incurred.

Additional and quantitative information with respect to the estimated replacement cost of inventories and certain property, plant and equipment at December 31, 1976 and the related estimated effect of such costs on cost of sales and depreciation and amortization for the year then ended is presented in the Corporation's Annual Report to the Securities and Exchange Commission on Form 10-K.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

1500 WALNUT STREET

PHILADELPHIA, PA. 19102

The Board of Directors and Shareholders
IU International Corporation
Wilmington, Delaware

We have examined the consolidated balance sheets of IU International Corporation (a Maryland corporation) and subsidiaries as of December 31, 1976 and 1975 and the related consolidated statements of earnings, additional paid-in capital, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of IU International Corporation and subsidiaries at December 31, 1976 and 1975, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 28, 1977

Shareholder Data

Shareholder Profile

IU International had 41,487 shareholders at year-end 1976, including 33,774 holders of common stock and 7,713 holders of preferred and preference stock.

On December 31, 1976, there were 29,588,328 outstanding shares of IU common stock; 1,129,936 outstanding shares of Special Stock, Series A; and 692,431 outstanding shares of $1.25 Convertible Preferred Stock.

Common stock registration	Number of holders	Number of shares	% of total
Individuals	30,885	10,508,323	36%
Banks, securities firms and depositary trusts	1,451	14,199,056*	48
Foundations, corporations, unions and pension plans	1,438	4,880,949	16
Total	33,774	29,588,328	100%

*Includes shares held beneficially on behalf of an estimated 10,000 individual shareholders.

During 1976, the trading volume of IU common stock on all exchanges was 10,650,367 shares. Of this, 7,665,731 shares were traded on United States stock exchanges.

In 1975, a total of 10,892,422 shares of IU common stock was traded on all exchanges. Of that total, 6,435,112 were traded on United States exchanges.

Dividends

Dividend payments are made to IU shareholders on the first business day of March, June, September and December. Total dividends paid during 1976 were $26.9 million. Owners of common stock were paid $25.6 million, and holders of preferred stock received $1.3 million.

Automatic Dividend Reinvestment Service

IU shareholders may put their quarterly common stock dividends to work immediately by reinvesting them automatically in additional shares of IU common stock. Additional cash investments may also be made conveniently. A brochure describing this service is available from the company's Corporate Affairs Department at Executive Offices in Philadelphia, and from the Dividend Reinvestment Service Offices of Citibank, N.A., Post Office Box 4970, Grand Central Station, New York, New York 10017.

Investor Services

IU maintains an investor relations office within its Corporate Affairs Department at Executive Offices in Philadelphia. If beneficial shareholders experience delays in receiving IU financial reports from their brokerage firms, they are invited to write directly to the Corporate Affairs Department for interim and annual reports.

Annual Meeting

The annual meeting of shareholders will be held at 11:00 a.m., Eastern Daylight Time, on Wednesday, May 4, 1977, at 100 West Tenth Street in Wilmington, Delaware. A formal notice, together with a proxy statement and form of proxy, will be mailed to shareholders in advance of the meeting.

Transfer Agents

Transfer agents for IU's capital stock are Morgan Guaranty Trust Company of New York; Wilmington Trust Company in Wilmington; Bank of America, N. T. & S. A. in San Francisco; and Montreal Trust Company in Montreal, Toronto, Calgary, Vancouver and Regina.

Registrars

Registrars of IU's capital stock are Chemical Bank in New York; Wilmington Trust Company in Wilmington; Wells Fargo Bank N.A. in San Francisco; Crown Trust Company in Montreal, Toronto, Calgary and Vancouver; and The Royal Trust Company in Regina.

Stock Exchanges

IU's capital stock is listed for trading (symbol: IU) on these exchanges: New York, Philadelphia, Midwest, Pacific, Toronto, Montreal, Vancouver, London, Amsterdam, Oslo and Tokyo.

Capital Stock Summary

The cash dividends and the high and low prices of the company's stock on the New York Stock Exchange are shown in the table to the right. The Special Stock, Series A is not entitled to cash dividends, but is convertible into common stock at an increasing ratio.

The company's $5.00 Preferred Stock does not trade actively, and so has not been included in the table. During 1976 and 1975, the bid prices were $50 and $46 per share, respectively. Dividends of $1.25 per share were paid in each quarter of 1976 and 1975 to holders of this stock.

	Common Stock			Special Stock, Series A		$1.25 Convertible Preferred Stock		
	Dividend	High	Low	High	Low	Dividend	High	Low
Fourth Quarter 1976	$.2250	12⅜	10	34¾	28¾	$.3125	19½	16½
Third Quarter 1976	.2250	12⅞	10½	34	29¼	.3125	20	17½
Second Quarter 1976	.2125	11¼	9⅞	31	27¼	.3125	18	16
First Quarter 1976	.2125	13¼	9⅝	35	26¼	.3125	21	15½
Fourth Quarter 1975	.2125	10⅝	9⅛	28½	28½	.3125	16⅞	14¾
Third Quarter 1975	.2125	12⅜	10	31½	26¼	.3125	19½	16¼
Second Quarter 1975	.2125	12⅝	10¾	32	28	.3125	20	17¼
First Quarter 1975	.2125	12⅞	8½	32	22½	.3125	20	13⅝

IU International

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The Wilmington Tower
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(302) 652-1121

Executive Offices
1500 Walnut Street
Philadelphia, Pennsylvania 19102
(215) 985-6600

IU's Annual Report on Form 10-K to the Securities and Exchange Commission and the company's Facts & Figures Manual will be available, on request, from the Corporate Affairs Department of IU at the Executive Offices address above.

IU

International